



THE REED INSTITUTE

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Trustees
The Reed Institute:

We have audited the accompanying statements of financial position of The Reed Institute as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of The Reed Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Reed Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Reed Institute as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 11, 2012

THE REED INSTITUTE
Statements of Financial Position
June 30, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 19,758,368	10,142,365
Accounts receivable – student and other (note 8)	1,171,287	236,847
Short-term investments (note 3)	2,154,769	1,264,818
Contributions receivable, net of allowance \$39,000 in 2012 and \$27,000 in 2011 (note 8)	747,520	504,456
Prepaid expenses and other assets	3,814,049	3,364,072
Total current assets	27,645,993	15,512,558
Noncurrent assets:		
Cash and cash equivalents whose use is limited	10,687,483	2,308,107
Accounts receivable noncurrent – student and other, net of allowance of \$60,000 in 2012 and 2011 (note 8)	5,033,993	4,993,653
Property, plant, and equipment, net (note 4)	116,500,999	111,919,299
Contributions receivable – noncurrent net of allowance of \$834,000 in 2012 and \$995,000 in 2011 (note 8)	15,833,551	18,882,999
Funds held in trust by others (note 7)	883,951	13,171,845
Funds held by trustee (note 3)	12,804,568	17,884,144
Long-term investments (note 3)	460,310,562	447,385,039
Other assets	607,951	548,214
Total noncurrent assets	622,663,058	617,093,300
Total assets	\$ 650,309,051	632,605,858
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,913,037	5,362,287
Postretirement benefits payable (note 6)	741,405	611,371
Debt and capital leases, current portion (note 5)	1,286,898	1,220,195
Deferred revenue	1,094,440	980,452
Total current liabilities	10,035,780	8,174,305
Long-term liabilities:		
Liability for split interest agreements	10,294,643	10,757,649
Postretirement benefits payable (note 6)	22,588,347	15,188,196
Refundable loan programs	2,866,345	2,920,745
Asset retirement obligation	2,990,144	2,956,981
Debt and capital leases, net of current portion (note 5)	82,712,860	83,895,011
Other liabilities	3,254,477	2,368,419
Total long-term liabilities	124,706,816	118,087,001
Total liabilities	134,742,596	126,261,306
Net assets (note 9):		
Unrestricted	289,919,580	278,001,047
Temporarily restricted	70,556,190	91,185,175
Permanently restricted	155,090,685	137,158,330
Total net assets	515,566,455	506,344,552
Total liabilities and net assets	\$ 650,309,051	632,605,858

See accompanying notes to financial statements.

THE REED INSTITUTE

Statement of Activities and Changes in Net Assets

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2012</u>
Revenues, gains, and other support:				
Tuition and fees	\$ 58,179,755	—	—	58,179,755
Less college-funded scholarships	(20,512,593)	—	—	(20,512,593)
Net tuition and fees	<u>37,667,162</u>	<u>—</u>	<u>—</u>	<u>37,667,162</u>
Auxiliary enterprises	13,124,228	—	—	13,124,228
Gifts and private grants	10,605,266	1,946,887	16,000,523	28,552,676
Government grants, contracts, and student aid	1,204,154	—	—	1,204,154
Realized and unrealized gains and losses	11,049,397	2,249,316	—	13,298,713
Other investment losses	(332,753)	—	—	(332,753)
Other revenues and additions	1,314,041	—	113,157	1,427,198
Subtotal	<u>36,964,333</u>	<u>4,196,203</u>	<u>16,113,680</u>	<u>57,274,216</u>
Net assets released from restrictions	<u>27,037,663</u>	<u>(27,037,663)</u>	<u>—</u>	<u>—</u>
Total revenues, gifts, and other support	<u>101,669,158</u>	<u>(22,841,460)</u>	<u>16,113,680</u>	<u>94,941,378</u>
Expenses:				
Educational and general:				
Instruction	30,853,694	—	—	30,853,694
Research	1,195,611	—	—	1,195,611
Academic support	8,203,178	—	—	8,203,178
General institutional support	19,028,038	—	—	19,028,038
Student services	6,273,679	—	—	6,273,679
Public affairs	5,362,159	—	—	5,362,159
Total educational and general	<u>70,916,359</u>	<u>—</u>	<u>—</u>	<u>70,916,359</u>
Auxiliary enterprises	<u>16,302,141</u>	<u>—</u>	<u>—</u>	<u>16,302,141</u>
Total expenses	<u>87,218,500</u>	<u>—</u>	<u>—</u>	<u>87,218,500</u>
Increase (decrease) from operations	<u>14,450,658</u>	<u>(22,841,460)</u>	<u>16,113,680</u>	<u>7,722,878</u>
Nonoperating activity:				
Other interest expense	(126,293)	—	—	(126,293)
Change in value of split interest agreements	—	2,065,547	(256,637)	1,808,910
Increase in underwater endowments	(231,316)	231,316	—	—
Other additions (deductions)	(2,174,516)	(84,388)	2,075,312	(183,592)
Total nonoperating activity	<u>(2,532,125)</u>	<u>2,212,475</u>	<u>1,818,675</u>	<u>1,499,025</u>
Increase (decrease) in net assets	11,918,533	(20,628,985)	17,932,355	9,221,903
Net assets, beginning of year	<u>278,001,047</u>	<u>91,185,175</u>	<u>137,158,330</u>	<u>506,344,552</u>
Net assets, end of year	<u>\$ 289,919,580</u>	<u>70,556,190</u>	<u>155,090,685</u>	<u>515,566,455</u>

See accompanying notes to financial statements.

THE REED INSTITUTE

Statement of Activities and Changes in Net Assets

Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2011</u>
Revenues, gains, and other support:				
Tuition and fees	\$ 55,497,789	—	—	55,497,789
Less college-funded scholarships	(20,111,171)	—	—	(20,111,171)
Net tuition and fees	<u>35,386,618</u>	<u>—</u>	<u>—</u>	<u>35,386,618</u>
Auxiliary enterprises	12,713,380	—	—	12,713,380
Gifts and private grants	9,313,221	4,099,694	627,228	14,040,143
Government grants, contracts, and student aid	1,536,926	—	—	1,536,926
Realized and unrealized gains and losses	34,584,767	25,604,992	—	60,189,759
Other investment losses	(1,093,462)	—	—	(1,093,462)
Other revenues and additions	1,722,320	—	53,152	1,775,472
Subtotal	<u>58,777,152</u>	<u>29,704,686</u>	<u>680,380</u>	<u>89,162,218</u>
Net assets released from restrictions	<u>10,613,598</u>	<u>(10,613,598)</u>	<u>—</u>	<u>—</u>
Total revenues, gifts, and other support	<u>104,777,368</u>	<u>19,091,088</u>	<u>680,380</u>	<u>124,548,836</u>
Expenses:				
Educational and general:				
Instruction	25,535,650	—	—	25,535,650
Research	1,106,266	—	—	1,106,266
Academic support	8,142,617	—	—	8,142,617
General institutional support	11,259,607	—	—	11,259,607
Student services	5,772,326	—	—	5,772,326
Public affairs	5,286,251	—	—	5,286,251
Total educational and general	<u>57,102,717</u>	<u>—</u>	<u>—</u>	<u>57,102,717</u>
Auxiliary enterprises	<u>15,828,289</u>	<u>—</u>	<u>—</u>	<u>15,828,289</u>
Total expenses	<u>72,931,006</u>	<u>—</u>	<u>—</u>	<u>72,931,006</u>
Increase from operations	<u>31,846,362</u>	<u>19,091,088</u>	<u>680,380</u>	<u>51,617,830</u>
Nonoperating activity:				
Other interest expense	(119,082)	—	—	(119,082)
Change in value of split interest agreements	—	2,333,036	1,169,871	3,502,907
Recovery of underwater endowments	4,232,829	(4,232,829)	—	—
Other additions (deductions)	(92,634)	(1,038,889)	950,949	(180,574)
Total nonoperating activity	<u>4,021,113</u>	<u>(2,938,682)</u>	<u>2,120,820</u>	<u>3,203,251</u>
Increase in net assets	<u>35,867,475</u>	<u>16,152,406</u>	<u>2,801,200</u>	<u>54,821,081</u>
Net assets, beginning of year	<u>242,133,572</u>	<u>75,032,769</u>	<u>134,357,130</u>	<u>451,523,471</u>
Net assets, end of year	\$ <u>278,001,047</u>	<u>91,185,175</u>	<u>137,158,330</u>	<u>506,344,552</u>

See accompanying notes to financial statements.

THE REED INSTITUTE

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Increase in net assets	\$ 9,221,903	54,821,081
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization costs	4,385,899	4,288,239
Contributions restricted for long-term investment	(6,101,347)	(10,580,169)
Noncash contributions	(2,436,351)	(1,075,568)
Net realized and unrealized gain on investments	(12,255,842)	(59,828,329)
Net realized and unrealized gain on split interest agreements	(1,569,962)	—
Change in value of split interest agreements	(238,948)	(3,502,907)
Change in asset retirement obligation	33,163	(361,430)
Change in fair value of derivative instruments	886,058	31,421
Changes in operating assets and liabilities:		
Increase in cash whose use is limited	(8,379,376)	(111,238)
Decrease (increase) in accounts receivable	(974,780)	170,765
Decrease (increase) in contributions receivable	2,806,384	(1,352,947)
Increase in prepaid and other	(454,405)	(442,427)
Increase in accounts payable and accruals	1,550,750	626,477
(Decrease) increase in postretirement	7,530,185	(2,640,687)
(Decrease) increase in deferred revenue	113,988	(150,215)
Net cash used in operating activities	(5,882,681)	(20,107,934)
Cash flows from investing activities:		
Proceeds from maturities/sales of investments	213,927,491	311,884,850
Purchases of investments	(197,701,068)	(295,680,607)
Contracts receivable collected	26,778	(27,500)
Contracts receivable advanced	(80,469)	—
Disposal of equipment	51,223	35,246
Purchase of property, plant, and equipment	(8,969,217)	(2,740,411)
Net cash provided by investing activities	7,254,738	13,471,578
Cash flows from financing activities:		
Contributions restricted for long-term investment	6,101,347	10,580,169
Issuance of new debt	—	40,030,000
Payment of debt principal/capital lease obligations	(1,115,448)	(20,459,943)
Payments on split interest agreements	(1,252,900)	(1,244,982)
Increase (decrease) in obligations for split interest agreements	(463,006)	360,727
Changes in governmental loan funds	(54,400)	(56,114)
Changes in deposit with bond trustee	5,079,576	(17,884,144)
Net cash provided by financing activities	8,295,169	11,325,713
Net increase in cash and cash equivalents	9,667,226	4,689,357
Cash and cash equivalents, beginning of year	10,142,365	5,453,008
Cash and cash equivalents, end of year	\$ 19,809,591	10,142,365
Supplemental schedule of noncash investing and financing activities:		
Assets acquired under capital leases	\$ 118,070	23,658
Supplemental disclosures of cash flow information:		
Interest paid	\$ 2,086,215	1,773,491

See accompanying notes to financial statements.

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

(1) Background

The Reed Institute (Reed College) was founded in 1908 by Simeon and Amanda Reed, with one central commitment: to provide a balanced, comprehensive education in liberal arts and sciences, fulfilling the highest standards of intellectual excellence. Reed College offers a B.A. in one of 22 major fields and numerous interdisciplinary fields, as well as a master of arts in liberal studies degree. The Reed College educational program pays particular attention to a balance between broad study in the various areas of human knowledge and close, in-depth study in a recognized academic discipline.

(2) Summary of Significant Accounting Policies

(a) *Accrual Basis*

The financial statements of Reed College have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(b) *Basis of Presentation*

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The definitions used to classify and report net assets are as follows:

- Unrestricted net assets – net assets that are not subject to donor-imposed stipulations or donor-restricted contributions whose restrictions are met in the same reporting period.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met either by actions of Reed College or the passage of time.
- Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be permanently maintained by Reed College. Generally, the donors of these assets permit Reed College to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. All expenses are reported as decreases in unrestricted net assets with the exception of activity related to life income agreements. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted either by donor stipulation or by law. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets and are reported as “net assets released from restriction” in the statements of activities. Restrictions related to contributions for the purchase of capital additions are released when the asset is placed in service.

Income and net gains on investments of endowment and similar funds are reported as follows:

- Increases in permanently restricted net assets if the terms of the gift or Reed College’s interpretation of relevant state law require they be added to the principal of a permanently restricted net asset.

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

- Increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or if endowment income has not yet been appropriated for expenditure.
- Increases in unrestricted net assets in all other cases.

Reed College follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds. See note 10 for further disclosures.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for student and contributions receivables; and the valuation of the interest rate swaps, investments, split-interest agreements, and actuarial assumptions. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(d) Revenues

The principal sources of revenue, consisting of tuition, room and board, various other educational fees, unrestricted income from funds functioning as endowment, unrestricted gifts, and net assets released from restrictions, are accounted for in unrestricted net assets. Unrestricted net assets also include revenue from grants, auxiliary enterprises, and gains on disposal of assets.

The following assets have become available for general operating purposes from release from donor restrictions through the passage of time and through the maturation of various planned giving agreements for the years ended June 30, 2012 and 2011, respectively.

	2012	2011
Maturation of planned giving agreements	\$ 15,016,468	500,994
Passage of time	2,809,431	(61,509)
Endowment earnings appropriated for expenditure	9,211,764	10,174,113
Total net assets released from restrictions	\$ 27,037,663	10,613,598

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

With a few exceptions, the monies in the endowment and similar funds are invested as a pool, and the related income of the pool is distributed to each participating fund based upon a spending formula and its relative proportion of the pool.

In addition, monies, which are not required to meet short-term demands, are combined and invested. The income earned on these intermediate investments is allocated to each participating fund based upon its relative proportion of the combined investment.

(e) Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. In conjunction with the adoption of FASB ASC No. 820, Reed College has adopted the measurement provisions of FASB ASC No. 820-10, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, and real estate. Net asset value (NAV), in many instances may not equal fair value that would be calculated pursuant to ASC No. 820.

Realized and unrealized gains and losses arising from the sale, collection, or other disposition of investments, as well as all dividends, interest, and other investment income, are shown in the statements of activities and changes in net assets. Gains and investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets if the restrictions are met in the same reporting period that the gains and income are recognized. Losses on investments related to gifts that the donor required to be invested in perpetuity (i.e., endowment funds) are classified as decreases in temporarily restricted net assets until the investments fall below the original gift at which point they decrease unrestricted net assets. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level are classified as increases in unrestricted net assets.

(f) Split-Interest Agreements

Reed College has been named as a beneficiary for various split-interest agreements. Each agreement provides for contractual payments to stated beneficiaries for their lifetimes, after which remaining principal and interest revert to Reed College. Assets contributed are recorded at fair value. In addition, Reed College has recognized the present value of estimated future payments to be made to beneficiaries over their expected lifetimes as a long-term liability. The present values of these estimated payments were determined on the basis of published actuarial factors for ages of the respective beneficiaries discounted using the risk-free rate adjusted for mortality uncertainties and are not changed after the date of the gift. Annual adjustments are made between the liability and the net assets to record actuarial gains or losses. Differences between the assets contributed and the expected payments to be made to beneficiaries have been recorded as contribution revenue in the year established. These donations are either temporarily restricted on the basis of time or permanently restricted based on the intent of the donor.

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

(g) Contributions Receivable

Unconditional promises to give (contributions) are recorded as gifts and private grant income and contributions receivable. Promises to give are not recognized until they become unconditional, that is, when the donor-imposed restrictions are substantially met. Contributions other than cash are recorded at their estimated fair value. Management estimates an allowance for uncollectible contributions based on risk factors such as prior collection history, type of contribution, and the nature of the fund-raising activity. Contributions are generally receivable within five years of the date the commitment was made and were discounted to present value using a discount rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

(h) Derivative Instruments

Reed College accounts for derivatives in accordance with FASB ASC No. 815-10, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recorded on the statements of financial position at their respective fair values. Changes in the fair value are recognized in unrealized gains and losses, unrestricted, in the statements of activities and changes in net assets.

(i) Property, Plant, and Equipment, Net

Property, plant, and equipment are stated at cost at the date of acquisition, if purchased, or at fair market value, at the date of receipt, if acquired by donation. Equipment under capital leases are stated at the present value of minimum lease payments. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings (twenty to fifty years) and equipment and furnishings (five years). Plant and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Routine repair and maintenance expenses and equipment replacement costs are expensed as incurred.

(j) Donated Materials

Donated materials are included in the statements of activities and changes in net assets as "Gifts and private grants" at their estimated fair values at date of receipt. These materials are subsequently expensed when used.

(k) Income Tax Status

The Internal Revenue Service has recognized Reed College as exempt from tax under the provisions of Section 501(c)(3) of the Internal Revenue Code except to the extent of unrelated business income under Sections 511 through 515. Management believes that unrelated business income tax, if any, is immaterial and therefore, no tax provision has been made. Reed College accounts for income taxes in accordance with FASB ASC No. 740-10, *Accounting for Uncertainty in Income Taxes*, an Interpretation of FASB Statement 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. ASC No. 740-10 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. As Reed College is exempt from taxation under

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

Section 501(c)(3) of the Internal Revenue Code as a qualified educational institution and is generally not subject to federal or state income taxes, the adoption of ASC No. 740-10 did not have a significant impact on the Reed College's financial statements.

(l) Cash and Cash Equivalents

Cash and cash equivalents represent cash in bank and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents whose use is limited are restricted for the Federal Perkins Loan program.

(m) Deferred Revenue

Deferred revenues consist primarily of prepayments of tuition and fees related to future academic years.

(n) Postretirement Benefits

Reed College has a noncontributory postretirement medical benefit plan covering participating employees upon their retirement. Reed College maintains a postretirement medical benefit plan and accounts for the plan within the framework of FASB ASC Nos. 715 and 958, *Employer' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

Reed College records annual amounts relating to its postretirement medical benefit plan based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, and healthcare cost trend rates. Reed College reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. Reed College believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

(o) Concentration of Risk

Reed College's standard financial instruments include commercial paper, U.S. government and agency securities, corporate obligations, equity securities, mutual funds, hedge funds, private equity, and real estate. These financial instruments may subject Reed College to concentrations of risk. Federal depository insurance coverage was expanded effective January 1, 2011 to provide unlimited insurance coverage to all depositors.

THE REED INSTITUTE
Notes to Financial Statements
June 30, 2012 and 2011

(3) Investments

The fair value of investments at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Investments:		
Long-term government bonds	\$ 25,000	25,000
Bond funds	47,194,723	17,601,315
Small cap equity funds	—	3,620,291
Large cap equity funds	50,241,679	57,637,460
Exchange-traded funds	10,506,588	14,997,623
Hedge funds	209,451,995	215,722,836
Private equity	130,008,951	127,854,961
REITs	2,499,352	2,503,853
Real estate	4,470,896	5,466,779
Money market and other	8,066,147	3,219,739
Total investments	<u>\$ 462,465,331</u>	<u>448,649,857</u>

At June 30, 2012 and 2011, Reed College has approximately \$339 million and \$348 million, respectively, of investments that are not readily marketable (alternative investments). These investments represent 73% and 77% of total investments and 66% and 69% of total net assets at June 30, 2012 and 2011, respectively. These investment instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. See note 12 for investment fair value measurements.

The alternative investments are reported at net asset value (NAV). These investments are redeemable at NAV under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Reed College interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Reed College interest in the funds.

At June 30, 2012, Reed College has committed \$238,688,750 to private equity partnerships and hedge funds. As of June 30, 2012, Reed College has funded \$187,783,851 of these commitments leaving an unfunded balance of \$50,904,899. These commitments are callable by the general partners/advisors between now and 2022. The terminations of these partnerships/funds are based upon specific provisions in the agreements.

Included in investments are \$20,585,299 and \$19,844,271 of planned giving trusts held in mutual funds that are not available for spending as of June 30, 2012 and 2011, respectively.

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

Within private equity and hedge funds, Reed College has funds invested in thirty-six and twenty-nine limited partnerships, respectively, with ownership interests ranging from 0.02% to 19% at June 30, 2012 and 0.04% to 5.5% at June 30, 2011. Included in the assets of the various partnerships at times there are certain positions of derivative financial instruments.

At June 30, 2012, Reed College had funds held by trustee of \$12,804,568, which was the remaining unspent proceeds from the 2011 State of Oregon notes. The funds held by trustee will be spent on qualifying expenditures on capital projects.

Total investment income and realized and unrealized gains on investments that are not readily marketable was \$17,873,813 and \$42,787,651 for the years ended June 30, 2012 and 2011, respectively.

(4) Property, Plant, and Equipment, Net

Property, plant, and equipment at June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 14,420,260	13,787,212
Buildings	152,101,727	150,566,850
Construction in progress	7,445,050	1,878,687
Equipment, furniture, and fixtures	12,792,014	11,557,085
	<u>186,759,051</u>	<u>177,789,834</u>
Less accumulated depreciation	<u>(70,258,052)</u>	<u>(65,870,535)</u>
Net property, plant, and equipment	<u>\$ 116,500,999</u>	<u>111,919,299</u>

Depreciation expense was \$4,242,063 and \$4,197,690 for the years ended June 30, 2012 and 2011, respectively, and is allocated to the functional expenses based on the relative square footage of the department.

(5) Long-Term Debt

(a) Capital Lease Obligations

Reed College leases copiers over various terms. The carrying values of assets under capital lease at June 30, 2012 and 2011 are \$314,753 and \$302,002, respectively. Amortization costs of \$105,320 and \$94,402 are included in accumulated depreciation for the years ended June 30, 2012 and 2011, respectively.

THE REED INSTITUTE
Notes to Financial Statements
June 30, 2012 and 2011

The payment schedule for the capital lease obligation is as follows:

2013	\$	140,445
2014		140,025
2015		86,790
2016		36,899
2017		15,370
		419,529
Less amount representing interest		(31,366)
	\$	388,163

(b) Notes Payable

During 2008, Reed College refinanced the 2006 and the 2007 State of Oregon Bonds in the amount of \$47,060,000. The 2008 State of Oregon notes mature on July 1, 2038 and bear interest based on a weekly basis set through the remarketing process.

Effective March 22, 2011, Reed College refinanced the 2000 State of Oregon Bonds in the amount of \$19,080,000 and borrowed an additional \$20,950,000 to be used to finance the construction of a new performing arts building.

Wells Fargo Bank is the liquidity facility provider for the 2011 Bond Issue should the bonds fail to remarket. The Liquidity Facility agreement remains in effect until April 22, 2015, unless renewed or terminated pursuant to the conditions set forth in the 2008 Liquidity Facility.

Notes payable are summarized as follows:

		2012	2011
2008 State of Oregon notes	\$	44,105,000	45,250,000
2011 State of Oregon notes		40,030,000	40,030,000
		84,135,000	85,280,000
Less discount		(449,995)	(466,796)
Total	\$	83,685,005	84,813,204

THE REED INSTITUTE
Notes to Financial Statements
June 30, 2012 and 2011

Principal payments on the notes payable become due as follows:

	<u>2011 State of Oregon notes</u>	<u>2008 State of Oregon notes</u>	<u>Total</u>
2013	\$ —	1,185,000	1,185,000
2014	—	1,210,000	1,210,000
2015	—	1,265,000	1,265,000
2016	—	1,310,000	1,310,000
2017	—	1,375,000	1,375,000
Thereafter	40,030,000	37,760,000	77,790,000
	<u>\$ 40,030,000</u>	<u>44,105,000</u>	<u>84,135,000</u>

Interest on the State of Oregon notes payable bonds and amortization of discount and issuance costs are as follows:

	<u>2012</u>	<u>2011</u>
Interest	\$ 2,086,215	1,773,491
Amortization of discount and issuance costs	31,149	32,315
Total interest expensed	<u>\$ 2,117,364</u>	<u>1,805,806</u>

Notes payable discount, net of amortization was \$449,994 and \$466,796 at June 30, 2012 and 2011, respectively. Issuance costs, net of amortization were \$381,384 and \$395,731 at June 30, 2012 and 2011, respectively. Amortization is calculated over the life of the notes. The fair market value of the notes payable at June 30, 2012 and 2011 was \$90,070,677 and \$88,150,675, respectively.

(c) Interest Rate Risk Management

In order to take advantage of fluctuations in long-term interest rates, Reed College has entered into an interest rate swap agreement with a notional amount \$16,650,000, which allows Reed College to change the variable interest rate to a fixed interest rate on State of Oregon notes payable.

In June 2006, Reed College issued \$16.65 million of auction rate debt through the Oregon Facilities Authority. The College entered into an interest rate swap of like term, amortization, and notional amount with an investment bank to hedge this underlying variable rate debt. Reed College has subsequently refinanced the 2006 notes, however, retained this swap arrangement for interest rate risk management. Pursuant to this swap, Reed College works with a consulting firm to aid in monitoring changes in interest rates and the impact they may have on long-term debt.

During the years ended June 30, 2012 and 2011, \$591,521 and \$603,274 was paid, respectively, and is recorded in the statements of activities and changes in net assets as other investment expense. The change in unrealized gain and loss on the swap agreements for the years ended June 30, 2012 and 2011 was a loss of \$886,058 and a gain of \$361,430, respectively, and is recorded in the statements of activities and changes in net assets as realized and unrealized gains and losses. The fair value of

THE REED INSTITUTE
Notes to Financial Statements
June 30, 2012 and 2011

the swap agreement as of June 30, 2012 and 2011 was a liability of \$3,254,477 and \$2,368,419, respectively, which is recorded in the statements of financial position as other long-term liabilities.

(6) Retirement and Postretirement Benefits

(a) Retirement Plan

Reed College has a defined contribution noncontributory pension plan administered through Teachers Insurance and Annuity Association – College Retirement Equities Fund. Certain employees are eligible to participate and must be employed one year and have attained the age of twenty-one. All contributions vest immediately with the employee at the rate of 10% of the participating employees' monthly compensation. Reed College's policy is to fund pension expenses as incurred. Expenditures relating to the plan were \$2,948,758 and \$2,842,395 for the years ended June 30, 2012 and 2011, respectively, and are included in education and general expenses in the accompanying statements of activities.

(b) Defined Benefit Retiree Medical Insurance Plan

Reed College maintains a defined benefit retiree medical insurance plan, which is administered by Pioneer Educators Health Trust (PEHT) and is not funded. Employees hired after June 30, 2006 do not participate in this plan. In order to participate, employees hired prior to September 2, 2001 must retire from Reed College at or after age fifty-five with at least ten years of continuous service. In order to participate, employees hired between September 1, 2001 and June 30, 2006 must retire from Reed College at or after age fifty-five with twenty years of continuous service. Employees are covered for the lowest premium plan for his or her lifetime and spouses/domestic partners are covered at the rate of fifty percent of the lowest premium plan for his or her lifetime. Employer premium expenses were \$932,316 and \$847,997 for the years ended June 30, 2012 and 2011, respectively, and are included in education and general expenses in the accompanying statements of activities.

The accrued liability for postretirement benefits at year-end is as follows:

	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 15,799,567	18,440,254
Service cost	483,472	308,719
Interest cost	952,801	921,886
Benefits paid	(611,371)	(613,699)
Actuarial gain (loss)	6,705,283	(3,257,593)
Benefit obligation at end of year and funded status	\$ 23,329,752	15,799,567
Amounts recognized in the balance sheet consist of:		
Postretirement benefits payable-current	\$ 741,405	611,371
Postretirement benefits payable	22,588,347	15,188,196
	\$ 23,329,752	15,799,567

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

Net periodic benefit cost for the years ended June 30 included the following components:

	2012	2011
Interest cost	\$ 952,801	921,886
Service cost	483,472	308,719
Amortization of gain	—	(332,087)
Net periodic benefit cost	\$ 1,436,273	898,518

Reed College used the following actuarial assumptions to determine its employee benefit obligations at and net periodic benefit cost for the years ended June 30, 2012 and 2011, as measured at June 30:

	2012	2011
Benefit obligation:		
Weighted average discount rate	4.15%	5.95%
Rate of increase in per capita cost of covered healthcare benefits	7% trending to 4% in 2016	7% trending to 4% in 2016
Net periodic benefit cost:		
Weighted average discount rate	5.95%	5.85%
Rate of increase in per capita cost of covered healthcare benefits	7% trending to 4% in 2016	8% trending to 5% in 2015

Reed College's policy is to fund the plan as claims payments are made. In the 2012-2013 fiscal year, Reed College expects to contribute, from ongoing cash flows and current assets, \$664,414 to the plan. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending June 30:

Year:	
2013	\$ 741,405
2014	798,174
2015	855,256
2016	910,959
2017	953,778
2018 – 2021	5,492,175

(c) Emeriti Retiree Defined Contribution Health Plan

Reed College has a defined contribution retiree health plan for employees hired on or after July 1, 2006. Reed College makes contributions on each eligible employees behalf once the individual reaches the age of 40 years. Employees are also eligible to make discretionary after tax contributions to their account if the individual is 21 years or older. Employees are eligible to receive benefits from the plan if the employee has attained age 55 years or achieved twenty years of continuous service to Reed College. Employer expenses related to this plan were \$277,585 and \$223,000 for fiscal years ended June 30, 2012 and 2011, respectively.

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

(7) Funds Held in Trust by Others

Reed College has been named beneficiary of a portion of the remainder of three trusts in 2012 and four trusts in 2011 maturing at specified dates in the future. These trusts are administered by other entities. Reed College revalues the receivables using the fair value of expected future cash flows. At June 30, 2012 and 2011, the trusts receivable were \$883,951 and \$13,171,845, respectively, and were included under funds held in trust by others, noncurrent.

(8) Contributions and Accounts Receivable

Contributions receivable consist of the following:

	2012	2011
Annual fund	\$ 1,876,183	1,209,759
Campaign fund	294,552	178,913
Endowment fund	11,600,340	14,526,734
Plant fund	4,516,750	5,697,835
Gross contributions receivable	\$ 18,287,825	21,613,241

Contributions receivable reported on the statements of financial position were as follows:

	2012	2011
Current:		
Gross contributions receivable	\$ 786,520	531,456
Less allowance for doubtful accounts	(39,000)	(27,000)
Total current net contributions receivable	747,520	504,456
Long-term (one to five years):		
Gross contributions receivable	17,501,305	21,081,785
Less allowance for doubtful accounts	(834,000)	(995,000)
Net long-term contributions receivable	16,667,305	20,086,785
Less discount to present value	(833,754)	(1,203,786)
Total long-term net contributions receivable	15,833,551	18,882,999
Total net contributions receivable	\$ 16,581,071	19,387,455

Reed College expects to receive \$5,849,868 in fiscal year 2013 and \$10,731,203 over the following three fiscal years, related to receivables outstanding at June 30, 2012.

Contributions receivable due in excess of one year are discounted at 0.281% to 4.713% and 0.923% to 1.754% for the years ended June 30, 2012 and 2011, respectively.

Of the net unconditional promises to give included above, \$11,561,641 represents an unconditional promise to give from 17 members of the Reed College board of trustees due in one to three years.

THE REED INSTITUTE
Notes to Financial Statements
June 30, 2012 and 2011

Accounts receivable consist of the following at June 30, 2012:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan fund</u>	<u>Endowment</u>	<u>Total</u>
Current:					
Student accounts receivable	\$ 43,680	—	—	—	43,680
Related parties	—	107,595	—	682,671	790,266
Other receivables	197,337	140,004	—	—	337,341
	<u>241,017</u>	<u>247,599</u>	<u>—</u>	<u>682,671</u>	<u>1,171,287</u>
Noncurrent:					
Student accounts receivable	—	—	25,916	—	25,916
Reed loans	—	—	1,191,398	—	1,191,398
Related parties	—	—	5,813	—	5,813
Federal Perkins loans	—	—	3,871,105	—	3,871,105
	<u>—</u>	<u>—</u>	<u>5,094,232</u>	<u>—</u>	<u>5,094,232</u>
Less allowance for doubtful accounts	<u>—</u>	<u>—</u>	<u>(60,239)</u>	<u>—</u>	<u>(60,239)</u>
	<u>\$ 241,017</u>	<u>247,599</u>	<u>5,033,993</u>	<u>682,671</u>	<u>6,205,280</u>

Accounts receivable consist of the following at June 30, 2011:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan fund</u>	<u>Endowment</u>	<u>Total</u>
Current:					
Student accounts receivable	\$ 67,984	—	—	—	67,984
Related parties	—	13,100	—	—	13,100
Other receivables	137,162	18,601	—	—	155,763
	<u>205,146</u>	<u>31,701</u>	<u>—</u>	<u>—</u>	<u>236,847</u>
Noncurrent:					
Student accounts receivable	—	—	27,447	—	27,447
Reed loans	—	—	1,145,084	—	1,145,084
Related parties	—	—	11,726	—	11,726
Federal Perkins loans	—	—	3,869,635	—	3,869,635
	<u>—</u>	<u>—</u>	<u>5,053,892</u>	<u>—</u>	<u>5,053,892</u>
Less allowance for doubtful accounts	<u>—</u>	<u>—</u>	<u>(60,239)</u>	<u>—</u>	<u>(60,239)</u>
	<u>\$ 205,146</u>	<u>31,701</u>	<u>4,993,653</u>	<u>—</u>	<u>5,230,500</u>

The Federal Perkins loans and Reed loans are generally payable at interest rates of 5% to 9% over approximately ten years. Repayment begins after a designated grace period following the student's college attendance. Principal payments, interest, and losses due to cancellation are shared by Reed College and the U.S. government in proportion to their share of funds provided. The Federal Perkins loan program provides

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

for cancellation of loans if the student is employed in certain occupations following graduation (employment cancellations). Such employment cancellations are absorbed in full by the U.S. government.

(9) Net Assets

At June 30, 2012 and 2011, net assets consisted of the following:

	2012	2011
Unrestricted:		
Operating	\$ 8,068,608	14,995,927
Designated for special programs	12,348,592	14,577,748
Institutional loan programs	4,530,460	4,358,742
Funds functioning as endowment	120,677,563	101,250,511
Accumulated quasi-endowment gains	106,374,090	107,520,141
Net investment in plant	37,920,267	35,297,978
Total unrestricted	\$ 289,919,580	278,001,047
Temporarily restricted:		
Educational and general programs	\$ 10,628,200	11,649,644
Annuity and life income funds	8,004,548	20,897,125
Accumulated endowment gains	47,728,650	53,412,186
Other temporarily restricted net assets	4,194,792	5,226,220
Total temporarily restricted	\$ 70,556,190	91,185,175
Permanently restricted:		
True endowment funds	\$ 151,936,022	133,461,917
Annuity and life income funds	3,154,663	3,696,413
Total permanently restricted	\$ 155,090,685	137,158,330

(10) Endowments

Through December 31, 2007, Reed College's management and investment of donor-restricted endowment funds were subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, UPMIFA, that serves as a guideline to states using the enacted legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's concept of historic dollar value threshold, the amount below which an organization could not spend from the endowment fund, in favor of a more robust set of guidelines about what constitutes prudent spending. Effective January 1, 2008, the State of Oregon enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date.

In August 2008, the FASB issued FASB ASC No. 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for all Endowment Funds*. ASC 958-205 was effective for fiscal years 2012 and 2011 for Reed College. The major change in net assets classification resulting from ASC 958-205 relates to the portion of the fund not stipulated by the donor to be restricted in perpetuity. In the absence of explicit donor instructions on the use of such funds, the earnings previously

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

classified as either permanently restricted or unrestricted must be reported as temporarily restricted until appropriated for spending

Reed College's endowment consists of approximately 425 individual funds of which approximately 32% or 137 funds are donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence of those donor restrictions. Endowment funds are invested on the basis of a total return policy to provide income and to realize appreciation on invested assets. Under this policy, a portion of realized and unrealized gains, in addition to interest and dividend income, can be used to support operations. Investment income used to support operations is allocated from funds that have a fair value in excess of historical value and are utilized in accordance with donor-imposed restrictions.

Reed College spends endowment income and capital gains within a spending policy that preserves principal in accordance with the UPMIFA. The policy on spending endowment income is to spend 5.3% of the average net assets over a rolling 13 quarter period. If losses reduce the assets of a donor-restricted endowment fund below the donor-restricted corpus, temporarily restricted net assets will be reduced until the accumulated gains associated with a fund are reduced to zero. At that point, further losses reduce unrestricted net assets. The value of donor-restricted endowment funds with a fair value of associated assets that is less than the original gift amount is \$5,010,984 and \$4,779,648 for the years ended at June 30, 2012 and 2011, respectfully. Future gains that restore the corpus value will be recorded as increases in temporarily restricted net assets after replacing any losses charged to unrestricted net assets.

Endowment net assets by type of fund as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (5,010,984)	58,218,464	151,936,022	205,143,502
Board-designated endowment funds	<u>231,937,023</u>	<u>—</u>	<u>—</u>	<u>231,937,023</u>
Total funds	<u>\$ 226,926,039</u>	<u>58,218,464</u>	<u>151,936,022</u>	<u>437,080,525</u>

Endowment net assets by type of fund as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (4,779,648)	64,949,596	133,461,917	193,631,865
Board-designated endowment funds	<u>212,377,090</u>	<u>—</u>	<u>—</u>	<u>212,377,090</u>
Total funds	<u>\$ 207,597,442</u>	<u>64,949,596</u>	<u>133,461,917</u>	<u>406,008,955</u>

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

Changes in endowment net assets for the year ended June 30, 2012 and 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2011	\$ 207,597,442	64,949,596	133,461,917	406,008,955
Investment return:				
Net investment gain	449,970	1,786,250	—	2,236,220
Net appreciation of investments	9,707,715	2,480,633	—	12,188,348
Contributions	—	—	15,877,255	15,877,255
Contributions from trust terminations	15,016,468	—	492,771	15,509,239
Appropriation of endowment assets for expenditure	(10,256,140)	(10,998,015)	—	(21,254,155)
Transfers to create donor-designated endowment fund	—	—	—	—
Transfers to create board-designated endowment fund	4,524,958	—	—	4,524,958
Transfers and other reclassifications	(114,374)	—	2,104,079	1,989,705
Endowment net assets, June 30, 2012	<u>\$ 226,926,039</u>	<u>58,218,464</u>	<u>151,936,022</u>	<u>437,080,525</u>

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2010	\$ 179,658,460	53,751,546	132,183,593	365,593,599
Investment return:				
Net investment losses	(41,970)	(174,896)	—	(216,866)
Net appreciation of investments	38,243,651	21,372,162	—	59,615,813
Contributions	—	—	554,886	554,886
Contributions from trust terminations	500,994	—	758,224	1,259,218
Appropriation of endowment assets for expenditure	(12,409,677)	(9,999,216)	—	(22,408,893)
Transfers to create donor-designated endowment fund	1,104,145	—	—	1,104,145
Transfers to create board-designated endowment fund	—	—	—	—
Transfers and other reclassifications	541,839	—	(34,786)	507,053
Endowment net assets, June 30, 2011	<u>\$ 207,597,442</u>	<u>64,949,596</u>	<u>133,461,917</u>	<u>406,008,955</u>

(11) Commitments and Contingencies

Reed College has placed certain of its medical and dental insurance coverage with the Pioneer Educators Health Trust (PEHT), formulated by seven similar western colleges and universities for the purpose of providing medical and dental insurance to higher education institutions. Under the agreement, member institutions are required to make contributions to the fund at such times and in an amount as determined by the board of trustees for the various benefit programs sufficient to provide the benefits, pay the

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

administrative expenses of the Plan, which are not otherwise paid by Reed College directly, and to establish and maintain a minimum reserve as determined by the board of trustees. In the event losses of PEHT exceed its capital and secondary coverage's, the maximum contingent liability exposure to Reed College is approximately \$432,691. This exposure fluctuates based on changes in actuarial assumptions, medical trend rates, and reinsurance amounts. The level of reinsurance is not expected to fluctuate significantly in the future.

On July 1, 1988, Reed College elected to place its liability insurance coverage with the College Liability Insurance Company, Ltd. (CLIC). CLIC was formed by seven similar western colleges and universities for the purpose of providing liability insurance to higher education institutions. As a portion of its capital, CLIC has placed a \$2,000,000 standby letter of credit of which Reed College is contingently liable for a pro rata portion based upon premium contributions from covered institutions. In the event the losses of CLIC exceed its capital and secondary coverages, the maximum contingent liability exposure to Reed College is approximately \$158,629. As of June 30, 2012 and 2011, there were no amounts outstanding against the standby letter of credit.

From time to time, Reed College is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, most of these claims and legal actions are covered by insurance and the ultimate disposition of these matters will not have a material effect on Reed College's financial position, statements of activities, or cash flow.

(12) Fair Value Measurements

(a) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, and accounts receivable: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

Contributions receivable and funds held in trust by others: The fair value is determined as the present value of future contractual cash flows discounted at an interest rate that reflects the risks inherent in those cash flows.

Investments: Equity securities are measured using quoted market prices at the reporting date multiplied by the quantity held. Debt securities are measured using quoted market prices multiplied by the quantity held when quoted market prices are available. Investments in real estate for which fair value is not readily determinable are carried at estimated fair values, if purchased, or at fair value at the date of receipt, if acquired by donation. Alternative investments, which are not readily marketable, are carried at estimated fair values. Reed College reviews and evaluates the values provided by the investment managers and estimates the fair value of the alternative investments using the NAV as a practical expedient.

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

Interest rate swaps: The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and Reed College.

Long-term debt: The fair value of the Reed College's long-term debt is measured using quoted offered-side prices when quoted market prices are available.

(b) Fair Value Hierarchy

Reed College adopted FASB ASC No. 820 on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC No. 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Reed College has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2012:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Long-term government bonds	\$ 25,000	25,000	—	—
Bond funds	47,194,723	34,601,548	4,430,770	8,162,405
Small cap equity funds	—	—	—	—
Large cap equity funds	50,241,679	38,631,141	11,610,538	—
Exchange-traded funds	10,506,588	10,506,588	—	—
Hedge funds	209,451,994	—	14,526,624	194,925,370
Private equity	130,008,951	—	—	130,008,951
REIT's	2,499,352	—	2,499,352	—
Real estate	4,470,896	—	—	4,470,896
Money market and other	8,066,148	7,715,974	350,174	—
Funds held in trust by others	883,951	—	—	883,951
Funds held by trustee	12,804,568	12,804,568	—	—
Total	<u>\$ 476,153,850</u>	<u>104,284,819</u>	<u>33,417,458</u>	<u>338,451,573</u>
Liabilities:				
Interest rate swap	\$ 3,254,477	—	3,254,477	—

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2011:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Long-term government bonds	\$ 25,000	25,000	—	—
Bond funds	17,601,315	13,110,327	4,490,988	—
Small cap equity funds	3,620,291	—	3,620,291	—
Large cap equity funds	57,637,460	48,954,476	8,682,984	—
Exchange-traded funds	14,997,623	14,997,623	—	—
Hedge funds	215,722,836	—	14,398,944	201,323,892
Private equity	127,854,961	—	—	127,854,961
REITs	2,503,853	—	2,503,853	—
Real estate	5,466,779	—	—	5,466,779
Money market and other	3,219,739	2,673,584	546,155	—
Funds held in trust by others	13,171,845	—	—	13,171,845
Funds held by trustee	17,884,144	17,884,144	—	—
Total	<u>\$ 479,705,846</u>	<u>97,645,154</u>	<u>34,243,215</u>	<u>347,817,477</u>
Liabilities:				
Interest rate swap	\$ 2,368,419	—	2,368,419	—

The following table presents Reed College's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2012:

Balance at July 1, 2010	\$ 290,772,401
Total realized and unrealized gains	44,256,319
Purchases, issuances, and settlements (net)	<u>12,788,757</u>
Balance at June 30, 2011	347,817,477
Total realized and unrealized gains	18,092,098
Purchases, issuances, and settlements (net)	<u>(27,458,002)</u>
Balance at June 30, 2012	<u>\$ 338,451,573</u>

THE REED INSTITUTE

Notes to Financial Statements

June 30, 2012 and 2011

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2012:

	<u>Fair value</u>	<u>Lock-up period</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Hedge funds	\$ 4,566,912	none	Daily	1 day
Hedge funds	137,271,623	3 – 24 months	Quarterly	30 – 90 days
Hedge funds	11,349,176	9 months	Semiannually	90 days
Hedge funds	24,020,554	7 – 9 months	Annually	60 – 90 days
Hedge funds	31,165,189	2 months	Monthly	15 days
Hedge funds	1,078,540	liquidating	N/A	N/A
	<u>\$ 209,451,994</u>			

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2011:

	<u>Fair value</u>	<u>Lock-up period</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Hedge funds	\$ 4,508,830	None	Daily	1 day
Hedge funds	143,478,692	3 – 24 months	Quarterly	30 – 90 days
Hedge funds	16,427,074	11 months	Triannually	120 days
Hedge funds	14,891,962	9 months	Biannually	90 days
Hedge funds	24,851,397	8 – 21 months	Annually	60 – 90 days
Hedge funds	9,890,114	2 months	Monthly	15 days
Hedge funds	1,674,767	In liquidation	N/A	N/A
	<u>\$ 215,722,836</u>			

Reed College holds investments in private equity limited partnerships where NAV is used as a practical expedient to measure fair value at June 30, 2012. These partnerships do not allow for periodic redemptions, but rather liquidate upon the termination date as stated in the partnership agreement. At June 30, 2012, \$130,008,951 of private equity limited partnerships and had termination dates that ranged from 2012 to 2022.

THE REED INSTITUTE
Notes to Financial Statements
June 30, 2012 and 2011

(13) Split-Interest Agreements

The following schedule summarizes the change in value and its presentation in the statements of activities as related to the change in value of split-interest agreements:

	2012	2011
Dividends and interest	\$ 493,346	587,672
Beneficiary payments	(1,252,890)	(1,244,982)
Investment fees	(179,357)	(194,306)
Net realized (loss) gain	(179,723)	186,808
Net unrealized gain	2,927,534	4,167,715
Total change in value	\$ 1,808,910	3,502,907

(14) Fund-Raising Expense

Reed College expended \$2,793,066 and \$2,786,570 for the years ended June 30, 2012 and 2011, respectively, for payroll and benefits, informational materials, travel, and special events relating to fund-raising activities. These costs are all classified as public affairs in the statements of activities and changes in net assets.

(15) Subsequent Events

Reed College evaluated subsequent events after the balance sheet date of June 30, 2012 through October 11, 2012, which was the date the financial statements were issued.